CHAPTER FOURTEEN

Housing in West Germany: Legal Instruments and Economic Structure

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Introduction

This paper does not adopt a narrow concept of welfare law, but uses a more inclusive one. 'Welfare' law is not just a matter relating to low income families, but also to those families, possibly earning up to a medium income, who are housed badly, pay relatively high rents and/or live in polluted surroundings or in dwellings which are inhumanely constructed and equipped. The term, welfare 'law' is not restricted to obvious examples of government regulation but also comprises legally framed fiscal policy.

The paper is structured as follows: To start with, I describe on a phenomenological level the adequacy of housing, summarising this description so that one of the basic patterns, i.e. the cost-income gap, becomes clear. This pattern, which I judge to be a 'problem' is then explained by certain economic structures. After that I discuss a number of legal and non-legal forms of state intervention which are supposed to solve the problem and explore their relative effectiveness. As structural determinants are found to impede this effectiveness, an alternative solution to the problem is discussed which is somewhat more radical than a mere reformulation of housing regulation and subsidy programmes. First, though, it is necessary to give a brief sketch of German housing provision.

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There is almost no public housing in the sense of dwellings developed, owned and let by government. Thus, in a general sense, almost all dwellings are private. The dwellings are better classified by the way in which they have been financed. Two types may be distinguished:

(a) Privately financed dwellings *(freifinanzierte Wohnungen)*. The term is somewhat misleading because it disguises the fact that these dwellings are subsidised by tax deduction and other indirect subventions. About 50% of the sector is developed by private companies which sell or let the dwellings or act as agents of a private proprietor. The dwellings may be sold at the market price. For those which are let, a statutory concept of fair rent applies which refers to the usual level of rents in the local community *(Vergleichsmiete)*.

(b) Publicly subsidised dwellings *(öffentlich geförderte Wohnungen* and *steuerbegünstigte Wohnungen)*. Here, direct subsidising, i.e. cheap credits or grants, prevails. About 70% of the sector is developed by housing corporations which again sell or let the dwellings or act as agents. The selling price as well as rent are determined by detailed prescriptions which are based on the cost principle *(Kostenpreis, Kostenmiete)*. The right to use a publicly subsidised unit is not unconditional but assumes that the income of the household does not exceed certain limits. These limits have become less restrictive over the years. Thus, at present, about 70% of the population are eligible for publicly subsidised housing.

1. The problem stated: the cost-income gap

Driving through German cities your overall impression is that houses are well kept and clean. You will hardly see slums. Official statistics show that the number of dwellings exceeds the number of households by about 3% and that expenditure on net rent by a 4 person-employee household averages 13% of net income.[1] At first sight the provision of housing in West Germany seems adequate as far as quality, quantity and prices are concerned. A closer look, however, reveals deficiencies which hide behind walls and averages.

Although there are almost no slums, there are about 600,000 poorly equipped dwellings for the very poor. There are 1,000,000 dwellings in monotonous high-rise blocks and up to 100 new towns with built-in standards for the inhabitant's inconspicuous consumption and way of life. There is an unequal distribution of infrastructure corresponding to class differences.[2] There is an overall zoning concept which splits the area as well as the individual person into separate parts; sleeping here, working there, shopping at a third and taking recreation at a fourth place. This structure forces the individual to permanently drive around and produces the very noise and air pollution from which the same individual is suffering, having reached the area to which he was rushing.[3] Compared to 'good old slums', I call these deficiencies 'new low quality', where, in a sense, the nerves and the brain rather than the body are suffering.

Again it is true that there are more dwellings than households in Germany. But a surplus is needed for the 10% who move each year, and is also due, to a considerable extent, to an almost unrentable and unsellable overproduction of the 1971/2 boom which does not satisfy demand in the low income market. Moreover, only 43% of tenant-worker households enjoy living above the widely accepted minimum standard which has been recommended by the *Internationaler Verband für Wohnungswesen, Städtebau und Raumordnung* in Luxemburg.[4] The 5 million foreign workers and their families in particular suffer most from small living space. A growing real lag in the quantity of dwellings relative to the number of households may be expected for the near future since the number of households is rapidly growing, whereas the number of newly constructed dwellings has drastically declined during the last four years.

Only 13% of the net income is spent on rent; that, also, is true. But another, and constantly rising, 12% goes into running expenses (heating, water, electricity, repairs). In big cities total housing expenses of an average worker family amount to between 30 and 52% of net income.[5] Large families and the elderly on average have to spend more than 20%. Private home-owners face a monthly burden of 25 to 28% for mortgage annuities plus 12% for running expenses and 5 to 7% for insurance, property tax, rubbish removal and street cleaning.[6] For a century a seemingly iron law of housing costs has been valid: the poorer a household, the more it will spend proportionally on housing.[7] Finally, since 1950, rents have been growing faster than prices in general, and construction costs have been growing twice as fast as the rents. There has been only one short period of relief from 1973–74.

Thus, while German housing standards have never been higher, a closer view shows severe deficiencies. They may even have reached the peak which a developed capitalist society is capable of providing.

If explanations and alterations are sought, is this achievement reason enough to confine oneself to more details, e.g. to some switching around of housing policy instruments like the invention of new subsidy formulae or regulatory recipes? I do not ignore the importance of this kind of analysis and reformist activity since minimum standards of 'welfare' have permanently to be demanded, supported and struggled for. A third look, however, will show that the deficiencies are rooted more deeply in social-economic structures, that from a dynamic perspective conditions are growing worse, and therefore that more radical questioning is needed.

The underlying deficiency which is apparent in the shortcomings listed above is that the market has failed to produce adequate housing, and that the standard could be achieved only as a result of heavy financial involvement of the state. The fiscal burden of such involvement may be simply shown: if the state did not provide direct subsidies, the average tenant of a publicly subsidised dwelling would have to pay an average monthly rent of DM 11.73 per square metre for a unit built in 1974.[8] If we subtract also the indirect subsidies the rent would probably amount at least to DM 14.00 per square metre. This would mean that the average family would have had to spend almost all its income on housing. In fact, the average rent for a 1974 built unit is DM 4.12 per square metre. The difference is subsidised. Since the Government is under permanent pressure to fill other gaps, it cannot enlarge or even keep constant its engagement. Indeed, it is successively withdrawing funds at the moment. According to the most recent subsidy scheme, aid will be reduced in fixed annual amounts. The result is that a 1974-built flat of 86 square metres which in 1974 was let monthly for DM 4.12 per square metre will cost about DM 12.00 per square metre in 1987. A similar situation will be faced by the owners of new houses.

My conclusion is that there is a broad 'structural' (i.e. 'prestate') gap between the incomes of the majority of the population and the rent/mortgage burdens to be paid. This structural gap is still veiled under governmental subsidies but is becoming more and more noticeable.

2. The problem explained: contradictory economic forces

Why is it that the cost of housing, if not subsidised, would absorb an unbearable proportion of average income? First, we have to analyse the conditions of the housing market. There are severe market failures which make the position of the would-be tenant or house-owner difficult. Tenants and buyers are many, landlords and building corporations are few; the commodity is not standardised, hence difficult to compare; for tenants and buyers of dwellings, in particular for newcomers to the local market, the price pattern is hardly transparent; to move to a better dwelling is psychologically and financially costly.

However, similar market failures are known also in markets for other commodities without producing a cost-income gap comparable to that in the housing sector. A further step is necessary to discern more deeply rooted determinants. There, two economic structures with contradictory effects can be discovered. The first creates a pressure on incomes, the second is responsible for pushing up costs. As regards pressure on incomes, due to the competitive nature of the labour market and, more fundamentally, due to the fact that the worker has to sell his labour services in order to survive and that he will only be employed if he gets less than he produces, it is conceivable that at times wages do not cover reproduction costs.

This constellation has emerged twice in Germany, after the two wars: workers were exposed to strong competition, and the reconstruction of the economy required high rates of capital accumulation. Government subsidised housing became necessary in order to secure the mere reproduction of the labour force. But it arose *not only* for this purpose. State intervention also helped to economise and thus to lower reproduction costs and to raise the rate of capital accumulation by centralising the planning and financing of house construction. Furthermore, since the First World War the labour unions have ceased to calculate their wage demands on the basis of real housing costs. More and more they have come to rely on the state.

There is no sign that the need for public responsibility for housing will change in the future. International competition would not allow wages to rise significantly. It is interesting to note the theoretical implications of this fact. Both, the 'subjective' and the 'objective' theory of the creation of value postulate that in the long run labourers will earn at least as much as is required for their cost of living—or, in Marxist terminology, wages are supposed to oscillate around the reproduction costs of the labour force.[9] State intervention in the housing sector demonstrates that the private economy has failed to realise one of its most fundamental claims: to provide decent living conditions through the invisible hand. This is a severe challenge to the subjective theory of value and another candidate for the all-embracing concept of market failure. The objective theory of value, on the other hand, is better off, because the socialisation of the means of production—and, by implication, of the reproduction of those means of production—is one of the central predictions of this theory.

Whereas the competitive nature of the labour market represents the 'pressing structure' behind incomes, the 'pushing structure' driving up housing costs as compared to the costs of other goods, seem to be fourfold: private property in land, secular inflation, the cyclic nature of the economy, and the separation of the commercial from the industrial function. Each of these characteristics of a capitalist society has particular effects on the housing sector and causes peculiar costs to it. Before going into details I would like to digress shortly and deal with the general system of capital circulation within the housing sector[10] (see the diagram opposite).

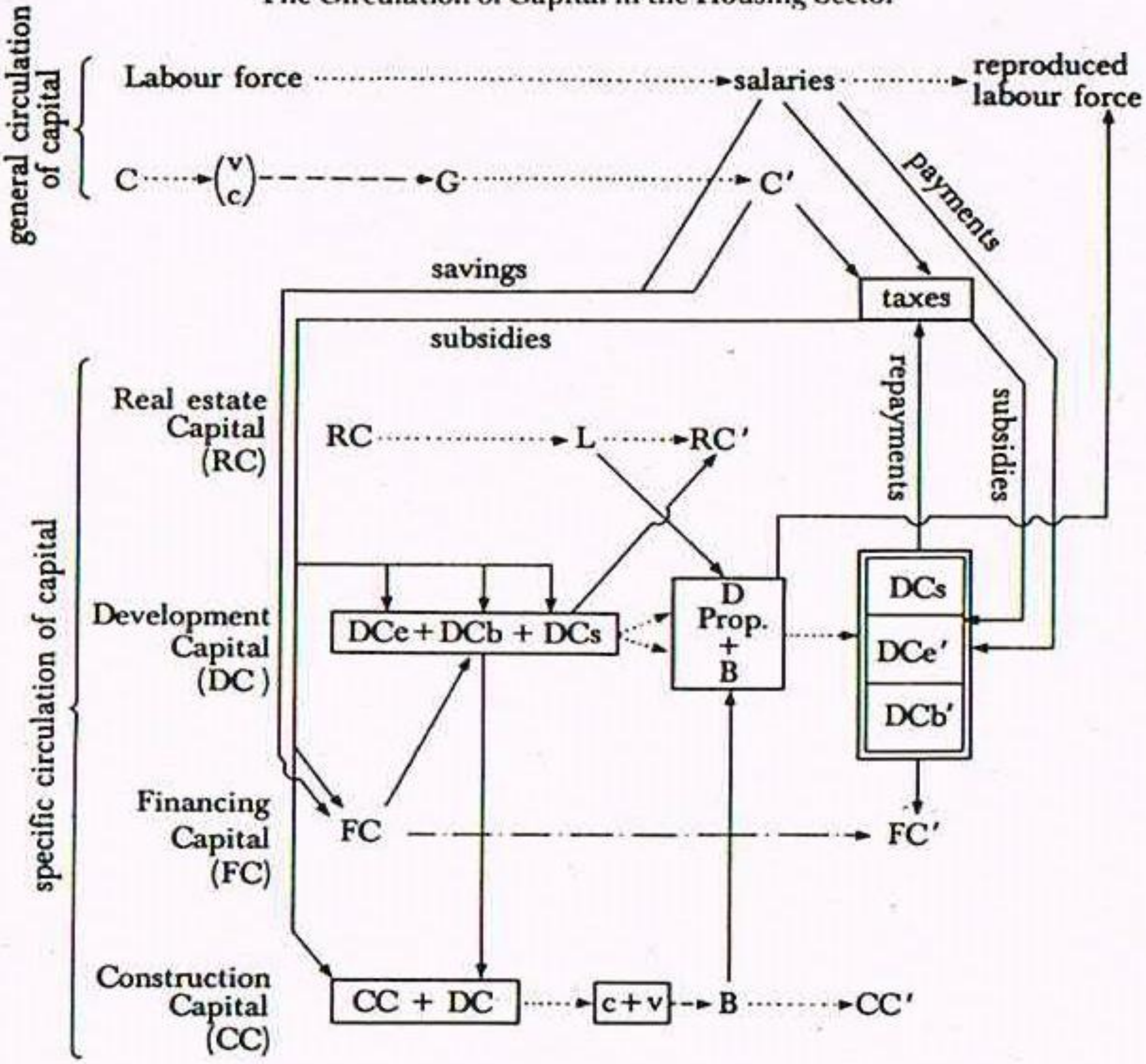
The diagram illustrates capital circulation in the housing sector and the interrelations between this circulation and capital circulation at large. The 'give' of the housing sector are land (L) and buildings (B), such that the labour force may reproduce itself. The 'take' is funds from the general production of commodities. The sources of these funds are: taxes, savings and payments for rents/prices. The housing sector rests on four capital circuits: that of real estate capital (RC L RC′)[11] that of construction capital (CC, which, in combination with a portion of DC, produces B and results in CC′), that of finance capital (FC FC′) and that of development capital (DC, which, in combination with the borrowed funds and subsidies, acquires the land and the house and results in DC′). It is important to realise the distinction between construction and development capital.[12] Development capital plays a rather opaque role. It functions in some ways as producing, financing and commercial capital and as real estate capital, but plays none of these roles completely.[13]

In order to understand the relationship between the different capital circuits as outlined in the diagram one should begin with the way DC is constituted. DC consists of equity capital, borrowed capital, and subsidies (mainly interest-free loans). The next step is the transfer of different proportions of DC to the real property holder and to the construction capital. This leads to a transformation of DC into commodity DL + B (a building on a piece of land).

The commodity can be sold or let, thereby resulting in DCe plus a profit, in total DCe′. The profit stems partly from the holding of the real estate and from entrepreneurial activity. Both sources of profit are originally paid from taxes and salaries.

I now come back to the four 'pushing structures' which are driving up

The Circulation of Capital in the Housing Sector



Symbols

——→ transfer of property	G = goods
·······→ transformation of the form of capital by purchase/rent	B = building
– – – –→ transformation of the form of capital by labour	L = piece of land
—·—·→ transformation of the form of capital by credit	C = capital
	e = equity
	b = borrowed
	s = subsidised
	c = constant capital (machines, lime etc.)
	v = variable capital (labour force)

housing costs.

Private land property in the housing sector gives rise to two kinds of ground rent.[14] The very existence of property as a legal institution enables the proprietor to require money if anyone wishes to use or purchase his land. This is true even for the marginal estate the site of which is worst in comparison to the other land in use. (Without private property the land could be freely distributed.) Given a certain demand for land or its use, money will be expended even for the worst. Marx has called this ground rent 'absolute rent'.[15] It constitutes a minimum on top of which another ground rent arises: 'monopoly rent'. The amount of this kind of ground rent varies with the site of the dwelling (e.g. absence of pollution, distance from infrastructure and employment areas). The rent is made possible because the owner of a real estate may withhold it if the tenant/purchaser does not pay for the better site. (Without private property in land, this rent would arise as well because people would estimate different sites higher or lower, but the rent would not flow into private pockets.) Both kinds of ground rent 'enter' the price of housing, in other words, they determine prices according to their volume.[16] These ground rents are peculiar to the commodity housing. The price of, say, a car contains less ground rent than the price of a house. In the housing sector, the ground rent appears as price for a piece of land or as part of the lease rent and contributes primarily to RC′, but also to DC′e and, by way of interest payments, to FC′.

Another factor which pushes up costs is the *cyclical character of the economy at large*. Wages, rates of interest and rents fluctuate. To build a house takes about 2 years. Hence, a construction business which is about to invest capital must predict what the wages, interest rates and rents will be in 2 years. It seems obvious that the risk of miscalculation prevents business from setting up a programme of prefabricated dwellings. Rather than industrialise itself, i.e. to augment c, business expands or contracts its labour, i.e. relies on the 'variable' capital. Consequently, construction capital is much less concentrated, centralised and industrialised than in other industries. The high proportion of labour induces comparatively high construction costs.

A third factor is *secular inflation*. Steady devaluation of money leads creditors to raise interest rates and to invent rather tricky devices, such as demanding down payments or contracting fees, etc., which make up for any losses. This hits housing particularly hard because to finance a house usually requires a comparatively high proportion of borrowed capital.[17] RC and CC, having conveyed the estate and done the construction work, need cash for their consequent capital circuit. Private house-builders or house-buyers mostly cannot afford the sum for to accumulate it generally takes a whole life-span. Professional house-builders (housing associations) cannot afford the sum for competition forces them to make a profit and to grow rather than to bind capital in a building for decades. Thus, the proportion of equity capital is only about 25% in the case of private and even only 10% in the case of professional house-builders. The corresponding figure for the industrial sector is about 40%. The commodity housing is therefore tied to a particularly high level of financing costs. The 'consumer' faces them as such, if he is a house-owner, or as part of the rent, if he is tenant.

The fourth factor consists of the *division between industrial and commercial capital*. This is a general characteristic of the capitalist economy. But commercial capital plays a particularly wide role in the housing sector and thereby causes special costs. As outlined above, development capital does not only offer dwellings for sale or rent—which would fulfil the commercial function—but invests equity capital for land purchase and construction works, plans the house, supervises the construction, assembles capital from prospective purchasers and from creditors, and takes care of the rented stock of its dwellings. Broad as this role may be, the return DC is getting is considerable. First, and legitimately, purchasers or tenants pay for the work DC has done, and repay the 10% equity capital invested in the house, including fair interest. Secondly, by drawing on the difference between the price paid for the ground and the actual value of the ground at the time of sale or rent, DC requires ground rent. Thirdly, in the case of letting, the tenants blow DC's 10% equity capital up to 100%, i.e. to full ownership. This is made by way of amortisation payments which are part of the rent. Fourthly, as far as the interest rate for the borrowed capital does not cover the devaluation of money DC benefits from inflation. Parts 2, 3 and 4 of DC's return are peculiar to the housing sector and represent additional costs.

Another effect of the separation of construction and development capital is that the former loses direct access to the housing market and grows dependent on the latter. CC thus is unable to dictate terms on the market which is another impediment against rationalisation and prefabrication.[18]

3. The problem as approached in Germany: state intervention and its impact

I mentioned earlier that the state has to bridge the gap between disposable income and required housing expenditure. The state does this not only for systematic reasons, for example the functional pre-requisite of having a growing economy or of having an adequately kept labour force at its disposal. There are also historical reasons for the state's intervention. The terrible living conditions in the big cities at the end of the nineteenth century caused unrest and political pressure.[19] Basically there are three typical instruments the state has used for approaching the problem: rent or price regulation, subsidy programme and the combination of regulation and subsidy. In the course of German history since about 1910 each type has appeared in a great variety of patterns. I shall list them in order even though historically the subsidy without regulation-type is a more recent innovation.

(a) Types of instrument

Regulation has been gentle (e.g. by merely forbidding usury[20]), of medium severity (e.g. fixing the rent by reference to comparable dwellings[21]), and very rigorous (e.g. a rent and price freeze[22]). These types of regulatory intervention have been used alternatively as well as cumulatively.

Subsidy programmes consist of *direct aid* through grants or loans and *indirect aid* through deductions from income for tax purposes. The recipients of subsidies need to be distinguished from the intended beneficiaries. Both may be identical (e.g. the subsidised house-owner) or different persons (e.g. the landlord and the low income tenant). Recipients of subsidies may be: construction capital (e.g. loans or grants for investment during a depression; faster depreciation for rationalising efforts[23]), financing capital (deduction of private house-building credits from the taxable income[24]; deduction for depreciation on shares in non-corporate real estate funds[25]) and consumers, be they tenants (rent rebates[26]) or purchasers (tax deduction for depreciation[27]).

Whereas indirect subsidies are usually given gratuitously, direct subsidies are often tied to price regulation. I call this case the *combined type* of intervention. This type, again, appears in many forms. Subsidies are predominantly tied to a cost rent or cost price (an institution I have mentioned earlier).[28] The connection is dissolved when the subsidy has been repaid. The house-owner may now charge the market rent/market selling price, but he may still be bound by general regulations relating to privately financed buildings. Which type of subsidy the state chooses depends on how wide the gap between incomes and costs is and how powerful relevant interest groups are at a given time.

In order to assess the effectiveness of state intervention I now examine some consequences of applying these instruments. I will try to answer two questions: Is the instrument able to narrow the cost-income gap? If so, does it have any impact on structural determinants of this gap? Unfortunately, much of what I shall say is not tested empirically. The present state of research does not allow for more than sophisticated guesses.

(b) Effectiveness of instruments

My overall impression is that the major instruments either do not narrow the gap and sometimes may even broaden it, or if they narrow it do so only in a superficial way, in other words, they are curing symptoms rather than controlling the structure determining the gap.

Rent regulation attacks the problem but at the farthest end of the causative chain of the planning, financing and constructing of dwellings).[29] When the house is ready, the cost structure is given. This includes cost for land rent and of financing and development. Rent regulation has either to be added onto it, in which case the regulation must be lenient; or such regulation may be tough, in which case it incurs the risk that the landlord will cease to keep the house in good shape.[30] There is certainly a feedback connecting rent regulation and also selling price regulation with the production end of the chain mentioned above but here, again, only lenient regulation will stimulate production whereas strict regulation will discourage investment. The result is ineffectiveness of mere regulation as far as basic structures are concerned unless only small adjustments are sought.

If at least some minor adjustments may be expected from regulation, there is little evidence that the second type of intervention, i.e. *aid without regulation*, has any narrowing effect on the cost-income gap at all. The most common form of this is a tax relief plan: the 'accelerated depreciation-scheme' for private house-owners. Unlike British tax relief on mortgage interest, the German house-owner is entitled to deduct annually a certain percentage of the house value from his taxable income. The annual percentage is a reducing one: 5% during the first 8 years after completing the house and 2.5% during 24 further years.[31]

That this tax relief is indeed a subsidy, is evident when it is realised that it is an unusual use of this scheme to make the tax deduction for depreciation available for private house-owners.[32] Tax deductions for depreciation is regularly granted only for the production, sale and lease, but not for the 'consumption' of goods. Therefore, only taxable income from housing *business* should be reduced. A private individual who is living in a house 'consumes' the house. He gets his income through his job, not through his house. He would also not be allowed to deduct the depreciation of, say, a car or a freezer.[33] Thus, the fact that he does get tax reduction is in itself a housing subsidy. This is all the more so in the case of the so-called 'accelerated' depreciation, as it allows for interest benefits and inflation-gain on the deferred tax expenditures.

If this grant went to small house-owners having less than or average income, at least for this group the subsidy might narrow the gap. In fact, the bulk of the subsidy flows to those whose income could more easily cover high costs of housing. This may be explained by the very system of tax incentives. Given a system of progressive taxation a person will receive more subsidies the more he is earning.[34] The additional benefit is granted to the better-off since tax deduction is also allowed for houses with two dwellings and, in the case of a married couple, for a second house. Those who can afford the equity capital for two houses may thus deduct from their taxable income annually 5% of the total costs of four dwellings. Even this could be thought of as a device to narrow the cost-income gap, if the house-owner was obliged to pass these benefits on to tenants. Rather he is free to calculate the rent on the basis of his financing costs and running expenditures. Thus, large amounts of public money—in 1975 1.5 million DM—are annually allowed to remain in the wrong pockets. As the resulting leak in the budget has to be filled by taxes which are levied mostly from the moderate and average incomes, one can even say that these funds are widening instead of narrowing the gap.[35]

There are further examples of aid without regulation which, due to limits of space, I can only mention. One, which is steadily becoming a real monster, is the rent rebate. German tenant households have a right to rent rebate if their income and the rent they have to pay are below certain statutorily fixed limits. The amount of payment varies with income, the number of household members, the size of the town which stands for the different market levels of rent, the construction date of the house and the equipment in the flat (central heating, bathroom). Obviously this instrument narrows the gap, as far as tenants are concerned, but again, this effect is just symptomatic. The instrument does not even attempt to attack the determinants of the cost-income gap. The production costs of housing are taken as given. The instrument is based on the results of the housing market. It presupposes that tenants will choose an optimal dwelling, thus stimulating competition between building companies, financing institutions and house-owners. However, the housing market is not at all competitive.[36] Market failures favour the landlord. The individualised rent rebate has no built-in device to change them. On the contrary, it must be expected that the house-building capital and, in particular, the land-owners will through increasing costs and land prices[37] absorb a good deal of the aid, since rent rebates widen demand.

Two final examples of aid without regulation are tax relief for 'non-profit' housing corporations and aids for building society savers.

Non-profit housing corporations are exempt from corporation tax.[38] But their prices and rents are almost as high as prices and rents of corporations set up on profit basis.[39] The tax benefit is also used for projects like hotels in Spain or congress centres in big cities. These projects do not conform to those purposes which the tax exemption was intended to encourage. This does not necessarily mean that the subsidies flow into the wrong pockets. The corporation is not allowed to make profits of more than 4% a year. But this profit is used for the blind growth of the corporation.[40] It is not passed on to house-purchasers or tenants.

As to the aid for building society savers the picture of the wrong pocket is valid again. The saver may choose between a governmental premium or a deduction of his income.[41] Here again, those who earn more are privileged. And the privileged are not obliged to pass on the benefit to the tenant.

The third type of governmental intervention, a *combination of subsidy and price or rent control*, seems to be more promising. Its major application is the following: a development company constructs dwellings and either sells[42] or lets them. The governmental subsidy is either a *contribution to capital* needed for construction *(Kapitalsubvention)*—(in this case it is paid out as a lump-sum loan), or it is a *contribution to annuity* which has to be paid annually on the borrowed funds *(Ertragssubvention)*—(in this case it is paid out in annual portions which add up to a bigger loan only after some years). In so far as the development corporation *sells* dwellings pricing has to take into account any governmental loan granted. When further contributions to the annuities are due the buyer will henceforth receive them. In so far as the corporation is *letting* dwellings, the calculation of the rent has to take into account any governmental lump-sum contribution to capital as well as any contributions to annuities.

What is the impact of this scheme on the cost-income gap? First of all, due to the selling price/rent control a good deal of the governmental subsidy is passed on to the purchaser/tenant of the dwelling. However, it may be that considerable sums flow to households not most in need. The income limit for entitlement to buying or renting a publicly subsidised dwelling is not very restrictive. About 70% of the population are thus entitled to such housing. Given an excess of demand over supply of dwellings of this sort, and given the economic interest of development capital to have a customer who will pay regularly and reliably[43] those of all entitled who are better off will be preferred as customers. Furthermore, given an annual growth of private incomes, this very group will be the first to surpass the income limit. To call this effect 'wrong-pocket' would not be quite correct since these beneficiaries are still less wealthy than those of subsidy without regulation-plans. 'Creaming the poor', a concept introduced by Miller, Roby and van Steenwijk,[44] to describe a typical deficiency of the welfare state, would seem to be a more appropriate term.

Even though a good proportion of these subsidies is taken up by households which need them, this effect of narrowing the gap is again directed at symptoms only. Subsidies plus price or rent control do not steer the circulation of land capital, construction capital, financing capital and development-capital.

The cost price and cost rent principle is based on a simple *post hoc* view: the costs of a building are taken as given, but since they would cause unbearable prices/rents a subsidy lowers the price/rent. No constraint is imparted to reduce the profit rate of the real estate, construction[45] and financing capital (RC′. CC′. FC′). On the contrary, these costing principles allow a transfer of any real costs to the purchaser or tenant. Thus, they destroy the incentive for development capital to reduce cost by exploiting competition on the land, construction and capital market.

It is not as easy to demonstrate that development capital is not restricted either. In the case of *selling* a house the development corporation is entitled to add 5% of the construction costs to the cost price. This yields a respectable profit rate because the equity capital the corporation has to invest amounts to not more than 10% of the total costs and may even be replaced by a couple of 'Ersatz'-investments (substitutes like real property, architectual services, etc.). The corporation's own costs, in particular expenditure on administrative services, are already itemised as part of the cost price.

In the case of house *letting* the profit has been hidden much better. The official philosophy of the cost rent is that tenants should not pay more than 4% interest of the equity capital of the development corporation (as compensation for the investment), the real depreciation of the building (as compensation for the tenant's use), the interest to be paid on the borrowed capital and the running expenditures (heating, etc.). The fact that the rate allowed for depreciation, namely 1% of construction costs annually, does not cover the corporation's repayment duties for the borrowed capital which usually are at least 2% annually, is regarded as the price a corporation has to pay for the benefit of obtaining ownership of the building even though its construction has been subsidised by government. (Otherwise, it would not be understandable why property rights are not granted to the tenants of a building). This property, it is true, is not worth much as long as cost renting applies. But after the subsidy is fully repaid (which takes about 40 to 50 years) the corporation is not restricted in the use of its property any more and may sell or let the dwelling at prices it likes and the market allows.

The legal provisions on calculation of the cost rent which implement this philosophy very cautiously circumscribe those items which may be taken into account. Only the prices actually paid for land, construction work and loan interests may enter the cost formula. As to the equity capital of the developer these provisions allow only for an interest rate of 4%, if equity capital amounts to less than 15% of total costs. From 15% and above the law concedes 6% interest. The amortisation rate may not be included in the cost formula. Instead of this rate, a rate of only 1% is allowed for depreciation. The running expenses of the landlord, including a specified amount for his administrative costs and 2% for the so-called risk of unpaid rent (*Mietausfallwagnis*), are laid down in detail.

However, this legal framework and reality are somewhat apart. There is much evidence that development capital is making as much profit as any other flourishing branch of the economy. A couple of hidden provisions allow them to 'collect equity capital', as corporations call it. One major item is that corporations can charge during the whole period of the amortisation of the borrowed funds the original interest rate though the redemption scheme of the loan provides for a progressive use of interest payments as amortisation payments. Furthermore, the original interest rate can be charged also after the borrowed funds have been repaid in full.[46] There are additional items of less importance. So, instead of the sum actually paid for the land, its value at the time of completion of construction may be charged; the expenses for architectural services may be calculated according to official standards for self-employed architects though 'cheaper' employee-architects have done the work: discount rates granted by building industry and financing institutions need not be declared, etc.

We may conclude that the subsidy plus regulation-scheme has indeed a narrowing effect on the cost-income gap since a good deal of the subsidies are passed on to the intended beneficiaries. But this success is relative. A portion of the subsidies is effective as 'creaming the poor', i.e. it does not reach those most in need. The rest is curing symptoms only.

4. Possible solutions to the problem

The instruments of government intervention in the housing sector seem to have either no effect on the cost-income gap, in the sense of narrowing it, or, if they have such an effect, they do not regulate structural determinants of this sector. Should such regulation really be employed, it is obstructed by private capital which has to and does look for profitable investment. The scheme of 'subsidy plus regulation' should bribe the private capital to conform to regulation, but the scheme is inverted because the subsidy is partly absorbed by the private capital and regulation is used as a price/rent guarantee rather than as a price/rent control.[47] The state faces a dilemma. It may try authoritatively to impose standards which, however, are not effective or it may try to be effective but lose its regulatory power. The reaction to this situation seems to be that the state is giving up attempts to further substantive goals within the housing sector and is falling back on a pure subsidy approach. The policy of subsidy without regulation, though, was found to be most obviously unable to provide housing for the poor and must be seen as the submission of the state to a planless policy for supporting blind growth of the economy. Thus, huge public funds are diverted from equitable uses or are poured blindly into a bottomless pit.

The capacity to subsidise will be increasingly strained the more subsidies are required to cover new and ever-increasing costs of externalities in the private economy. Health, social problems, pollution and education are strong competitors for public funds. The state is dependent on taxes and cannot increase its taxes if total surplus value does not increase. Surplus value cannot grow, if the state does not leave a substantial portion of it to private capital for reinvestment.[48] Whenever a depression occurs, the fiscal crisis follows. The Government's reaction within the realm of housing usually takes three steps: cutting back subsidies, 'liberalising' the market by weakening regulations[49] and inventing some 'creative new subsidy formula . . . to prevent disastrous rent increases',[50] which again contributes to the fiscal crisis. The legal and economic scholarship in Germany has been carefully preparing and accompanying each step of this vicious cycle forgetting again and again that scientists just a few years ago advocated quite the opposite of what is now thought fashionable, and that they will also drop this fashion in a couple of years. Scholarship of the American type, on the other hand, has taken off for a great debate on the regulation of slum housing which is discussed in Laputa, in Gulliver's flying peninsula, disconnected from the real world by a host of assumptions and little empirical knowledge.[51] Social conditions as well as their scientific reflections have developed and are ready for more fundamental alternatives. The alternative to be pursued should be based on a model which has already been applied in capitalist societies. Thus, chances for a successful political struggle are enhanced. Such an alternative should at least provide for a rechanneling of public funds presently used for housing so that the *cost-income gap* is effectively *narrowed*. Also, such an alternative ought to include the first steps towards *avoiding the gap* altogether by controlling the 'pressure-push' structure which determines this gap.

My candidate for such an alternative is 'public housing', or, perhaps better, 'socialised housing'. I shall not deal with the way in which it may be socially organised though I have a local model in mind and I am assuming there would be tenant participation in a broader domain than whose turn it is to clean the doorway.[52] Rather I shall examine only the relative advantages of financing 'socialised housing'.

In Western Europe and the US the public (state and local authorities) housing sector is responsible for about 1 to 5% of a year's dwelling production. Much higher rates are to be found in Austria, Ireland, Turkey and the United Kingdom.[53] As most public housing in countries with lower rates is devoted to the poorest families, and to public employees, it is very difficult to assess its performance as a general model. The situation in Eastern Europe, where the public sector is more comprehensive, is hardly comparable because general conditions are different. Some research has been done comparing public and private housing in certain countries.

If quality of housing is the criterion of comparison the British Public Authority Housing (PHA) which may serve as an example does rather well.

Quality Parameter of Public Authority Housing in the U.K.

(1971, in %)[54]

	5–6 rooms	Unfitness	No inside WC	No central heating	0.5 persons per room
Owner occupied	63.2	3	4	50	0.5
Public authority	52.4	1	3	65	1.8
Privately rented (unfurnished)		16	19	80	1.4

The inhabitants of PHA seem to be rather content if contentment is measured by the number of movers from one sector to the other.

Moving Processes from and to Different Housing Sectors

(1973, thousands)

Previous tenure \ New tenure	Owner occupied	PHA rented	Privately rented
Owner occupied	385	28	28
PHA	66	197	22
Privately rented	122	147	106

Information about the relative allocative efficiency of funding private and public housing is not as available.

For the USA, Eugene Smolensky[55] claims that the private sector can provide housing more cheaply than the public sector. His example of a housing programme, however, is based on assumptions unfavourable for the public sector: indirect subsidies are not taken into account; the rate for discounting the direct subsidies is too low; the investments compared concern building with different economic lives. Last but not least the empirical evidence shown by Richard Stegman proves that the real cost of the private projects analysed by Smolensky are much higher than assumed by the latter.[56]

For the United Kingdom, a comparison performed by the CSE Political Economy of Housing Group in Warwick comes to an intermediate conclusion:

> the great advance of the local authority sector over the owner occupied is not the fact that local authority housing is cheaper so much as the fact that it involves the socialisation of allocation of both housing and the costs of housing. As well as producing a more rational rent structure, this also removes the element of gambling forced on the owner occupier.[57]

It is my suspicion that socialized housing could be cheaper if the bulk of misallocated subsidies was collected and entirely used for housing not only the poor but all low to medium income families. Two hypothetical operations should demonstrate this point.

The first example is a single housing project. I am likely to overstate the point here because the example is not representative for West Germany in general, but the absurd features of the subsidy schemes are made particularly clear. I assume that a limited partnership on non-profit basis, located in West Berlin builds a block with 25 flats of 85 square metres each in 1976. The real estate is purchased from the state; 10 flats shall be sold, 15 shall be let. The equity capital of the partnership consists of DM 46,000—held by the general partner, a private limited company, and of DM 800,000—held by 80 limited partners in West Germany, each owning a share of DM 10,000. The real estate costs DM 480,000—the construction DM 3,750,000—i.e. in total DM 4,230,000. If all available governmental aids including the indirect ones are listed and discounted to their value at the time of the house construction, they amount to about 3 million DM, i.e. about 70% of the total costs of the house. Major reliefs and payments are: exemption from land purchase tax, federal programme for cheap sales of government properties, investment grants, faster depreciation for house building in West Berlin, 20% deduction from the income for loans given to house building in West Berlin, faster depreciation for purchased dwellings, premium allowed on building society savings, public loans and grants for building low income housing, rent rebates. The costs of the building are to a considerable extent offset by public subsidies, but the tenant/purchaser has to pay rent/price for his flat, as if only about 25% of the costs were subsidised. This shows that under present conditions much of the public aid is not getting to the imagined end-consumer. The West Berlin case is in some respects a peculiar one. The normal situation is less obvious but, as I believe, still persuading.

My second consideration is based on the sum total of subsidies paid annually for housing by public authorities.

Subsidies for the Construction of Dwellings in West Germany

(1975, million DM)[58]

Direct subsidies	Federal Government	1200
	States (Länder)	1500
	Local Authorities	410
	Federal Agencies (e.g. Post, Railway)	561
Premiums on Building Society Savings	Federal Government	1660
	States (Länder)	1660
Indirect subsidies	Federal and State Governments	1754
		8745

In the table, rent rebates which reached 1.6 billion DM, and subsidies for formerly built dwellings are not included. What would happen if this sum was entirely used for a socialised housing programme? The answer needs a caveat: the indirect subsidies are not totally at the state's disposal. Most of them flow into dwellings which already exist. The same is true for a minor part of the premiums. However, the state could step by step withdraw these forms of subsidy. In addition, the state could also withdraw another very common type of subsidy which does not appear in the table: the regular 2% tax deduction for depreciation. It is impossible to say what the precise sum is: about 5 billion DM a year would probably be a good guess. Thus, to take 8.7 billion DM as disposable funds seems to be a viable assumption.

We may further assume that 200,000 dwellings for moderate income households are needed annually.[59] The dwellings shall measure 80 square metres on the average. Thus, 16 million square metres have to be built. The building costs per square metre for 1975 were about DM 1,000. If the 8.7 billion DM are entirely used as equity capital, DM 540 per square metre, i.e. 54% of the building costs can be covered by money at hand. The rest of DM 460 per unit has to be borrowed on the capital market. If the annuity is 8% (7% interest, 1% repayment), the tenant has to pay a monthly rent of about DM 3 per m². Allowing for different sites for the dwelling, about 6 to 10% are to be added to this rent for the real estate. Finally, another DM 0.45 have to be added for a certain amortisation of equity capital. A rate of 2% on one half of the equity capital seems to be adequate because premiums and indirect subsidies are grants under the present system.

The net rent resulting would be 10 to 35% lower than the rent charged in 1975 for new publicly subsidised dwellings. And, even more important, the net rent would diminish after the repayment of the borrowed capital. Finally, no follow-up subsidy would be necessary.

My proposal to withdraw all direct and indirect subsidies from the market and consolidate them in a socialised housing fund does not totally liberate housing policy from the influence of private land property, secular inflation, business cycles, preponderance of commercial functions, and of the dependency of public funds on taxes. Socialised housing programmes would still have to buy land from private land-owners, but they need not make the tenant pay for the value added after the purchase through the development of the land. Also, by making better use of public lands (which are presently often sold off at low prices, for private use) the 'absolute rent' would disappear and the monopoly rent could be lowered. Socialised housing programmes would still need borrowed capital. But the high proportion of equity capital would reduce the burden of high interest rates.

Those programmes would not disconnect the construction industry from business cycles. But the more economic use of public money and the steady flow of rents into the housing fund would allow to some extent the continuation of the programme during depressions. Thus, the construction industry could be motivated to rationalise itself.

Those programmes would certainly require much organisational work. But there would be no need to pay more for this than it costs at present.

Finally, socialised housing programmes would certainly still depend on sufficient tax yields. But, by avoiding a dissipation of the subsidies they can mitigate the fiscal crisis as far as this crisis is caused by a socially uncontrolled redistribution of public funds. Also, these programmes would imply a redistribution of incomes from the wealthier to the poorer which is presently not achieved. Finally, by providing housing in kind rather than in cash (i.e. by rent rebates and subsidies to landlords) as well as by the broad participation of the tenant, the tenant would no more perceive his reliance on public funds as charity and personal failure. Rather, he would perceive this as his own right to share in the very economic value which he has produced himself, value which he has not been compensated for, or parts of which he has surrendered in the form of taxes.

Notes and References

1. W. Glatzer, Ziele, Standards und soziale Indikatoren für die Wohnungsversorgung, in W. Zapf (ed.), *Lebensbedingungen in der Bundesrepublik*, Frankfurt/New York (Campus), 1977.
2. I. Herlyn, U. Herlyn, *Wohnungsverhältnisse in der BRD*, Frankfurt/New York (Campus), 1976, p. 105.
3. Autorenkollektiv, *Die Herausbildung des Arbeitskräftetransports*, Arch + 19 (1973), pp. 16–30.
4.

type of household	1 person	Couple	Couple + 1 child	Couple + 2 children	Couple + 4 children
m² as recommended	35.3	51.0	64.5	69.5	107.0

Cf. *Familie und Wohnen. Schriftenreihe des Bundesministers für Jugend, Familie und Gesundheit*, vol. 20, Stuttgart (Kohlhammer), 1975.

5. Brede, Kohaupt, Kujath, *Ökonomische und politische Determinanten der Wohnungsversorgung*, Frankfurt (Suhrkamp), 1975, p. 21.
6. I. and U. Herlyn, *op. cit.*, p. 96.
7. This law has been specified by F. Luetge for the conditions of the last three decades. Luetge has observed that, income and housing expenditure being the co-ordinates, the expenditure curve is not totally linear but mounts in steps. The steps refer to the social strata. In terms of income the upper end of a stratum usually overlaps with the lower end of the next stratum. Housing expenditure is often higher at the lower end of a stratum than at the upper end of the previous. Luetge calls his version the law of the status-related housing expenditure (F. Luetge, *Wohnungswirtschaft*, Stuttgart, 1949, p. 429).
8. *Bundestagsdrucksache*, 8/1123, sub 14.
9. See for the 'subjective' theory W. Röpke, *Die Lehre von der Wirtschaft*, Erlenbach-Zürich, 1951, p. 232 and, for the 'objectiv' theory, K. Marx, *Lohn, Preis, Profit*, in Marx, Engels, Werke, Berlin (E.), vol. 16, p. 147.

10. The following scheme draws on a concept which has been proposed by A. Lipietz (*Le tribut foncier urbain*, Paris (Maspero), 1974, p. 68). It shows the prevailing type of capital circulation in West Germany and does not deny other types like the small-scale private house-building which is working without the development capital. Of course, the scheme would have to be drawn otherwise for the English system. The dash in RC′ stands for the profit yielded by the circuit RC L RC′.
11. The real estate capital is in many cases not capital in the sense that it is again and again reinvested. This is true for farmers or private land-owners who have inherited the land and consume the sum received for it or invest it at long-term interest.
12. House-building by developers seem to be less frequent in the UK than in West Germany.
13. See A. Lipietz, *op. cit.*, p. 74; Chr. Topalov, *Les promoteurs immobiliers*, Paris (Mouton), 1974, pp. 103–16.
14. Ground rent appears as part of the rent a tenant has to pay, or—in capitalised form—as part of the price a purchaser has to pay.
15. K. Marx, *Das Kapital*, vol. 3, Marx, Engels, Werke, Berlin (E.), vol. 25, pp. 756–80. According to Marx the source of this rent is the difference between the production costs and the value of a commodity. The proprietor of land forces the price of the commodity up to the level of the value of the commodity. Hence, absolute rent will be high in those economic sectors where the land use implies a high proportion of v/c, i.e. much surplus labour and hence much surplus value. Whereas Marx had agriculture in mind, A. Lipietz (*op. cit.*, p. 133) has applied this theorem to house-building. To assess the theorem would require a discussion of the labour theory of value. This would lead out of the frame of this article. Suffice to say that the absolute rent exists, regardless where it comes from.
16. In this respect both rents differ from the 'differential rent' which is typical for agricultural and industrial production. The differential rent does not 'enter' the price of the product, it does not differenciate prices according to its volume. Rather, this rent constitutes a surplus profit for those producers who, because of the extraordinary fertility of the ground or good connections with a highway or a harbour, proceed at lower costs than their competitors. See K. Marx, *op. cit.*, p. 659.
17. Borrowed capital is usually more expensive than equity capital. This is true not so much for the capital given by stockholders as

for the capital which has been earned in the form of profits. The latter funds are usually calculated to earn modest interest (though in fact they earn more because of the so-called leverage effect of high amounts of borrowed capital).

18. A. Lipietz, *op. cit.*, p. 63. Only very large firms are able to establish a co-ordination rather than a subordination with the development capital, see Chr. Topalov, *op. cit.*, pp. 126–9.
19. See E. v. Einem, H. Fassbinder, G. Lang, F. Rinkleff, *Die Entwicklung von der sozialkritischen Bodenreformbewegung zur reformistischen Bodenpolitik*, Arch + 17 (1973), pp. 63–78.
20. Wirtschaftsstrafgesetzbuch (*Bundesgesetzblatt*, I, 1975, p. 1313), sec. 5; Strafgesetzbuch (*Bundesgesetzblatt*, I, 1976, p. 2034), sec. 302a.
21. The 'usual rent' principle (Vergleichsmiete) refers to the privately financed dwellings, see Gesetz zur Regelung der Miethöhe (*Bundesgesetzblatt*, I, 1974, p. 3603).
22. Preisstopverordnung (*Reichsgesetzblatt*, I, 1936, p. 955; now repealed).
23. Investitionszulagengesetz (*Bundesgesetzblatt*, I, 1976, p. 2641), sec. 4b.
24. Einkommensteuergesetz (*Bundesgesetzblatt*, I, 1974, p. 2165), sec. 7c (now repealed); Berlinförderungsgesetz, *Bundesgesetzblatt*, I, 1976, p. 3341.
25. Einkommensteuergesetz, sec. 7b.
26. Wohngeldgesetz (*Bundesgesetzblatt*, I, 1977, p. 1685).
27. Einkommensteuergesetz, sec. 7b.
28. Wohnungsbaugesetz (*Bundesgesetzblatt*, I, 1976, p. 2673), sec. 54a, 72.
29. For the following see G. Winter, Der Mietspiegel zwischen Wohnwert-und ortsüblicher Vergleichsmiete, in *Wohnungswirtschaft und Mietrecht*, 1977, p. 85.
30. If tough regulation is supported by tough housing codes, it is to be expected that either the code will be undermined or, if it is adequately enforced, the landlord will create a double rent strategy. This consists of the net rent which abides by the limits of the rent control, and of the growing secondary 'rent', which includes a variety of costs that had previously been included in the basic rent. This strategy has widely been used in West Germany after the 1971 rent regulation.
31. Einkommensteuergesetz, sec. 7b.

32. The following draws on two student papers: G. Wenzel, Grundlagen der Baufinanzierung, mimeo, 1976, and H. U. Borgaes, W. Koopmann, Sonderabschreibung im Wohnungsbau, in *Kritische Justiz*, April 1978).
33. Here the American system seems to be different in that interest on loans for the car or freezer can be deducted.
34. S. S. Surrey has stated this point in a particularly lucid way: 'Indeed, it is doubtful that most of our existing tax incentives would ever have been introduced, let alone accepted, if so structured (i.e. as direct expenditure programmes—G.W.) and many would be laughed out of congress. . . . What HUD Secretary would suggest a housing rehabilitation subsidised loan programme under which a wealthy person could borrow the funds at 3% interest but a poor person would have to pay 7% or 8%? That is the effect of the five-year amortisation of rehabilitation expenditures contained in the recent Tax Reform Act' (see S. S. Surrey, 'Tax Incentives as a Device for Implementing Government Policy: A comparison with Direct Government Expenditures', 83 *Harv. Law Rev.*, 722 (1970)). This inequitable effect is probably less far-reaching in the UK, because the 34% tax bracket embraces virtually the entire income scale. Nevertheless, there *is* an effect as far as the tax is lower than the allowance. See F. Field, M. Meacher, C. Pond, *To Him Who Hath*, London, 1977, p. 66.
35. On the first view it is astonishing that this simple critique of tax incentives is almost never discussed in the political debate about new tax incentive plans. Professor Surrey who has observed the same in the USA suggests that this is due to the fact that tax incentives lie in the realm of governmental bodies which normally consider only financial aspects and are not competent in questions of social policy. If direct subsidies replaced tax incentives the consideration would go to governmental bodies which normally consider and continually administer social programmes (*op. cit.*, p. 728). This shortcoming could, however, be changed by better organisation of the decision-making process on tax incentives. I suspect that the reason for the indolence with regard to the social equity impact of a tax incentive programme lies in the fact that we have too many of these programmes. The whole range of tax incentives for investments in Berlin, ship-building, movies, developing countries, aeroplanes, etc., constitutes an absurd market on which the government competes against itself for private money. If the

government wants to mobilise further private funds for, say, house-building, it has to offer ever better conditions particularly for the more rich, simply because they have more to invest.

36. See above p. 199.
37. See above p. 202. The 'absolute rent' can be raised because the demand can 'afford' it.
38. Körperschaftssteuergesetz (*Bundesgesetzblatt*, I, 1975, p. 1933), sec. 4.
39. W. Nowak, *Das 'Gemeinnuetzige Unternehmen' als Instrument der Wohnungspolitik*, Berlin, 1973, 262.
40. Non-profit corporations are, it is true, in principle confined to build only small and medium income dwellings (Wohnungsgemeinnützigkeitsgesetz, *Reichsgesetzblatt*, I, 1940, p. 438, sec. 6). But the range of their business has been widened by an implementing order (Verordnung zur Durchführung des Wohnungsgemeinnützigkeitsgesetzes, *Bundesgesetzblatt*, I, 1969, p. 2142, sec. 6–11). According to this order the corporation may engage in the construction of buildings for governmental use and for commercial use, if this ultimately serves the low and medium income households. Furthermore, on special administrative permission, they may engage in any any other project.
41. Einkommenssteuergesetz, sec. 10; Wohnungsbauprämiengesetz (*Bundesgesetzblatt*, I, 1974, p. 2105), sec. 2b.
42. By the term 'selling' I refer to the economic sense of the transaction. Legally seen, the development corporation either confers the dwelling, which has been built as the property of the corporation, to the buyer by a sales contract and the transfer of the property, or manages the dwelling construction from the beginning by order, on account and on the real estate of the later house-owner.
43. In the case of dwelling purchase this requirement will be put forward by the financing institutions rather than by the development capital. The would-be purchaser will get credit the easier the more money he was able to save, and the higher his current income is.
44. S. M. Miller, P. Roby, A. A. de Vos van Steenwijk, *Creaming the Poor*, 7 Transaction 38–45 (1970).
45. There is, it is true, a governmental order which shall hold down the construction prices (VO PR Nr. 1/72, *Bundesgesetzblatt*, I, 1972, p. 293). But the main 'regulative' provision of this order, which holds that prices have to equal the market price is too vague to

exercise a sensible control. The provisions on the offering procedure are frequently obstructed by cartels. On recently discovered massive cartellising within the building industry see V. Hoffmann, V. Strauch, Kartelle in der Bauindustrie, in F. Duve (ed.), *Technologie und Politik*, vol. 5, Hamburg (Rowholt), 1976.

46. Presently these profits are partly absorbed by the expenditures for the maintenance of the buildings and their equipment. The 2 Berechnungsverordnung allows an annual sum of not more than 6.90–7.90 DM per m^2. The real expenditures are 8.90 DM per m^2. The difference shall be paid out of the said profits. See Deutsche Baurevision, Untersuchung über die pauschale Kalkulationsquote für Instandhaltungskosten im öffentlich geförderten sozialen Wohnungsbau, mimeo 1974, pp. 15, 24, 25 (an expertise by order of the Bundesminister für Raumordnung, Bau- und Wohnungswesen).
47. A similar phenomenon has been described by Bernstein. *Regulating Business by Independent Commissions* (Princeton, 1955).
    The author is more concerned with the political *process* of 'capture' of the Commission by the 'regulated' industry whereas my argument refers to the policy *results*. I cannot and do not claim that the German housing administration is in Bernstein's sense captured by the regulated industry. But an inversion of regulation to guarantee can also arise out of mere 'sympathy' of the administration with the industry. For the related methodological problems see Bachrach and Baratz, *Power and Poverty*, 1970.
48. For an elaborate account of this dilemma see J. O'Connor, *The Fiscal Crisis of the State* (St. Martin's Press, 1973).
49. It may be useful to note that the common terminology is misleading. To call a rent regulation strong or weak refers to the landlord. Seen from the tenant's perspective a strong regulation is weak for him and a weak regulation is strong (because it forces him to accept the higher market price).
50. This postulate is all A. A. Walsh derives from a thorough analysis on 'Is Public Housing Heading for a Fiscal Crisis?' (M. A. Stegman (ed.), *Housing and Economics: The American Dilemma*, M.I.T., 1970, pp. 279–89).
51. For a summary of the debate see R. Markovitz, *The Distributive Impact, Allocative Efficiency, and Overall Desirability of Ideal Housing Codes: Some Theoretical Clarifications*, 89 Harvard L.R., 1815–1846 (1976).

52. In Germany there has been a rather intensive discussion on different models of public housing organisation after the First World War. See e.g.
53. *Annual Bulletin of Housing and Building Statistics for Europe, Economic Commission for Europe*, 1975, pp. 40–2. In the United Kingdom public housing was much more dominant shortly after the First and again after the Second World War, as far as the building of new houses is concerned. Both programmes have been reduced, on ideological grounds (spreading of the idea of private home-ownership) and by pressure from the private housing industry. See S. Clarke, N. Ginsburg, *The Political Economy of Housing*, 4–5 Kapitalistate pp. 65–69 (1976).
54. Dept. of the Environment (ed.) *Housing Policy*, London (HMSO), 1977, Technical Volume 1, pp. 54, 56, 59, 66.
55. E. Smolensky, Public Housing or Income Supplements: The Economics of Housing for the Poor, in M. A. Stegman, *op. cit.*, pp. 252–71.
56. M. A. Stegman, Comment on 'Public Housing or Income Supplements: The Economics of Housing for the Poor', *op. cit.*, pp. 272–78. Even the Moreland Commission which has reported on the public housing sector in New York, and of which a severe critique of this sector could have been expected, reveals only organisational shortcomings. See Restoring Credit and Confidence, A Report to the Governor by the New York State Moreland Act Commission, 31 March 1976.
57. S. Clarke and N. Ginsburg, *op. cit.*, p. 85. The conclusion continues: 'The disadvantages of local authority housing derive from the fact that it remains within a capitalist society, bureaucratically administered by an authoritarian state apparatus, and still subject to the extortion of banker and land-owner.'
58. From: Subventionsbericht 1975 der Bundesregierung, *Bundestagsdrucksache*, 7/4203, and F. Menge, Der Wohnungsbau 1975, *Bundesbaublatt*, 1976, p. 362.
59. It is widely accepted that there is an annual need of 400,000 new dwellings in West Germany. As this figure includes dwellings for households which earn more than the average it is assumed that 200,000 dwellings for moderate income households are needed.